

Select Harvests 2013 AGM: Managing Director's Speech

22 November 2013



SELECT HARVESTS

SLIDE 1: Title Slide

SLIDE 2: Disclaimer

SLIDE 3: Overview

Good afternoon. As Michael said, I am going to give you an overview of our 2013 performance and our future planned activities.

We had a successful year in 2013. I too, would like to acknowledge the efforts of the board, the executive, our employees and suppliers in delivering this result. I have now been with Select for sixteen months and continue to be impressed by the level of passion and commitment in our organization.

Today, I am going to provide an update on our:

- Financial performance and significant achievements
- The Almond Division Activities & Outlook
- The Food Division Activities & Outlook
- Industry Demand and Supply Drivers
- And finally, a Crop and Strategy update.

SLIDE 4: FY 13 Financial Update

We delivered a strong underlying result in 2013.

- This result clearly supports the strategy and decision to move from a manager of orchards to an owner operator of almond orchards.
- This strategic move means our future is much more secure and we are well positioned to take advantage of the almond industry fundamentals of healthier eating and snacking.
- The reported result is heavily impacted by two significant decisions:
 - o The disappointing closure of WA project, and
 - o Two outstanding orchard acquisitions,
- To truly understand the operating result you need to look to the strong underlying performance of the business.
- Our operating cash flow reduction was a direct result of our larger crop. We had \$48m of inventory at year end and we have now receipted and banked most of those funds.
- The result was underpinned by a strengthening in the almond price, a return to normal growing conditions, our team's ability to: grow, market & deliver a crop 106% bigger than last year.

SLIDE 5: FY 13 Achievements

It has been a busy year for our horticulture, marketing and processing teams. We have merged the horticulture & processing offices, creating a more effective communication and operating environment.

The Horticulture Committee, comprising board and executive members, oversaw the WA review, two orchard acquisitions and the implementation of operational changes, which included:

Select Harvests Limited

360 Settlement Road
Thomastown
Victoria 3074
Australia

PO Box 5
Thomastown
Victoria 3074
Australia

Telephone (613) 9474 3544
Facsimile (613) 9474 3588
www.selectharvests.com.au

ACN 000 721 380
ABN 87 000 721 380

- Introduction of new technologies, KPIs and procedures to support more effective on-farm decision making
- Development and commencement of our replant strategy for our older and poorer performing orchards
- Implementation of several risk mitigation strategies including
 - o New water policy
 - o 3 year bee supply agreement
 - o Installation of Frost fans
- Our processing team implemented new policies and procedures to deliver better quality and customer service. These activities included
 - o The installation of the pasteurizer and free-fall metal detectors
 - o Implementation of LEAN manufacturing processes
- The marketing team did an excellent job to sell our crop for A\$6.60 per kg vs the previous year's A\$5.08/kg
- This division is now in a much more secure position under our new strategy. We are more in control of our destiny. We are better positioned to grow.

We have the right strategy and the right people.

The Food Division had a mixed result. Our industrial division which supplies ingredients to Food manufacturers and undertakes almond marketing/trading had strong growth at good sustainable margins. We have been able to take advantage of the ever increasing uses for almonds as an ingredient.

Our Consumer Packaged business that services the retail segment is still not making a sufficient return. The fundamental problem with this business is:

- Too much low margin business - both retail private label brands and company owned brands
- Insufficient innovation
- A supply chain that is too complex and too costly

It is worth noting the loss of the retail private label brands contracts had a negative impact on this division, which has been more than offset in the almond division.

We have invested time reviewing our people and financial structures and improving the accountability and transparency in both areas. Our goal is to develop a high performance culture. The initial progress is extremely positive.

- Complaints are down 50%.
- Working Capital and Headcount in the Food Division are down 25% year on year.
- All salaried employees have KPIs
- Customer Service is at record highs
- LTI injuries reduced by 68% which is a great effort by the team.

Additionally, we have renegotiated our bank funding. We have secured a combination of long term tenure through a \$50 million non-amortising 5 year term facility; operational flexibility through a \$60 million working capital facility to manage growing cycles and company projects and a \$25 million acquisition line to be applied against identified value accretive opportunities. This refinancing allowed us to reduce overall funding costs and also diversify our banking partners into a two bank structure NAB and Rabobank.

The restructure of our funding supports the change to our strategy and supports our growth aspirations.

SLIDE 6: Almond Division & Activities

The 2014 Horticultural program is well underway and the growing conditions have been normal with no adverse weather affects. As the vast majority of our orchards are mature our focus is better execution which has involved an extensive review of staff skills, irrigation and fertigation infrastructure and the commencement of a benchmarking process with the Australian Almond Board.

To leverage our processing assets we are actively seeking both processing contracts and orchard acquisitions to expand our exposure to the strong demand fundamentals of the almond industry.

SLIDE 7 Orchard Profile

Our acquisitions in NSW are reaching their peak as you can see from our orchard profile.

We have commenced the replant program of our older Victorian orchards replanting 170 acres (68 hectares) and removing 350 acres (140 hectares) which will be replanted next year. This program is likely to take 5 years to complete. It can be easily funded within our existing capital structure.

SLIDE 8: Acquisitions

Due to our confidence in the macro fundamentals of the almond market we are committed to growing our almond orchard portfolio through: acquisition, leasing or joint venture of both mature and development orchards. We have a balance sheet and banking facility that gives us the ability to support this strategy.

This week we acquired a property and its current crop in the Riverland in SA. This is a quality property of 2,430 acres (983 hectares) and has 680 acres of mature orchards with trees aged between 7 to 13 years old. This property has sufficient suitable land to double the plantable area. This is our first property in the Riverland and further expands our geographic diversity.

We will continue to investigate value accretive acquisitions.

Both our Robinvale and Thomastown facilities have the capacity to process additional volumes. These acquisitions will assist us with fixed overhead recovery and maximize the return from these assets.

SLIDE 9: Food Division & Activities

The Food Division operates in a challenging environment like all processing businesses in Australia.

- The packaged food business servicing the major retailers has some significant challenges from both a cost and go to market perspective.
- The industrial/food ingredients area has a very exciting future with an ever increasing demand for healthy ingredients stimulating growth.
- We have invested in insights to build the foundations for the future and start to reshape the business around these insights

The team has commenced work on improving margins by:

- Implementing price increases
- Reformulating products

SLIDE 10: SUNSOL

- Innovating or renovating products, the best example being our Sunsol muesli
- Range rationalizing the range
- Scrutinizing every cost

Up to this point we have basically tried to stop the leaks.

The focus is to build and deliver a plan that creates sustainable value.

SLIDE 11: Demand Drivers

Core demand drivers remain strong for the entire product range we process and market. Products sold through both the Food Division and the Almond Division are experiencing ongoing strong demand, as consumers are seeking low cost protein for their diets.

In recent years, demand for almonds has been driven by developing markets: India, China and Eastern Europe. In the last year, we have seen a significant change in the key demand source for almonds: the driver has shifted backed to developed economies: US, Europe and Australia. This demand is being created by the increasing use of almonds as an ingredient in products like: muesli, health bars, and baking products.

The issue of substitution is often raised; I do not believe substituting almonds can be done easily. The main barriers to substitution are:

- Almonds are more versatile than other nuts,
- Almonds are one of the lower cost nuts,
- Alternative nuts have similar tree maturation timeframes to that of almonds. It would take years to grow sufficient volume to replace the almond volume.
- Finally, the health benefits of almonds are generally superior.

We do not anticipate the demand to decrease.

SLIDE 12: Supply Drivers

As many of you would be aware, 80% of the world's almonds are grown in California and Australia is the second largest grower with just under 8%.

The Californian Almond Board does an excellent job coordinating and publishing industry data. We know that in the next few years supply should grow at 4%, while the carry over crop is down 5% from last year.

SLIDE 13: US DROUGHT

It is unlikely that California will rapidly increase plantings as they are in the grip of a serious drought similar to one we suffered in Australia 3 years ago. My belief is plantings will potentially slow, but in the near term the crop will remain at around 2 billion pounds.

Australia and Spain - the other major growing regions - have had very little new plantings. In summary, global supply will remain flat, potentially creating upward price pressure.

SLIDE 14: Strategy Update

We will drive and structure our business around 7 strategic platforms.

1/ Control Critical Mass Almonds is about

- Acquiring, leasing, developing vacant land and replacing orchards
- Processing for independent growers
- Management contracts and joint venture opportunities

2/ Improve Yield & Crop Value

- Making sure we are benchmarking with best practice locally and overseas
- Delivering and performing in the top quartile
- Learning from related industries

3/ Be Best in Class Supply Chain

- Making our supply chain/processing facilities best in class for productivity, quality and customer service
- Benchmarking vs. the best, not just our industry peers
- Continuous Improvement
- Again, learning from related industries

4/ Invest in Industrial and Trading Division

- An area where we see significant opportunity, as the use of almonds as an ingredient expands.
- We need to develop the food technology skills so we can be seen as strategic partner, not just a supplier.

5/ Turn around Packaged Food Business

- It is about cost, service and brands and growth

6/ Fixed Systems & Process

- To grow, we need the control, decision making tools and transparency that good systems and procedures provide

7/ Engage with our People & Stakeholders

- We are committed to transparency and alignment, both internally and externally
- Includes business execution, process, sales/marketing, safety and people development

SLIDE 15: 2014 Crop

As we have previously advised, the US crop is slightly smaller than last year's crop, but is still the third largest crop ever. As at the end of Oct, 50% of the US crop has been committed to sale and while the quality is good, the kernel sizing is smaller than average due to water availability. They did experience favorable harvest conditions, so they are in advance of last year. Similar to ourselves, they have benefitted from a further strengthening of the almond price.

Locally, we have experienced normal growing conditions and good water prices so far this season. It is still early in the cycle, with harvest due in February; our initial estimate is that our crop is within 5% of last year's crop, even after allowing for the impact of our replant strategy and the maturity profile of the remainder of our orchards.

We recently increased our 2013 crop price estimate from A\$6.36/kg to A\$6.60/kg and we are currently transacting at 10% to 15% above last year's price. We anticipate prices will remain at these levels until the early in the New Year when the market is more certain about the Australian crop and has its first view of the US crop.

SLIDE 16: Why Select?

I remain extremely optimistic about the outlook for Select Harvests - our Balance Sheet is much stronger with our orchards entering full maturity.

Select is entering a phase of strong cash generation, all things being equal.

In my discussions with existing shareholders and potential investors there are a number of themes which I think makes Select a compelling investment proposition:

- The fundamentals of the industry are, as we have heard, extremely attractive.
- We have built a strong team across the Board, Executive and Employees who are implementing a renewed focus on operational rigor and discipline across the business.
- We have a unique integrated business model, which we are yet to fully leverage.
- We are building a winning culture focused on excellence, service, reliability and value adding.
- We are focused on performance excellence with initiatives to drive yield and quality improvements and efficiencies.
- Our orchard maturity profile is compelling – a significant proportion of trees are at, or near, full productive maturity.
- We have a good position in the industry as the second largest almond producer in Australia – which itself is the second largest almond producer globally.
- We have high potential brands and excellent relationships with local and overseas customers.

Finally, I would like to thank you for your trust and the opportunity to run this business on your behalf and for taking the time to attend your AGM today.

I will be happy to answer questions during general Q&A and I will be around the foyer along with other members of the management team after this meeting.